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Eugene J. Baldrate
Director-Federal Regulatory

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APR 15 1994

April 15, 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

William F. Caton, Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: The Southern New England Telephone's Response In Support
of its Interconnection Direct Case

EX PARTE CC Docket No. 93-162

Dear Mr. Caton:

The Southern New England Telephone Company (SNET) is filing this material at the request of Mr. Gregory Vogt of the Common Carrier Bureau's Tariff Division.

Please call me if you have any questions.

I am filing two copies of this response pursuant to the requirements of Section 1.1206(a)(1) of the Commission's Rules.

Respectfully,

A handwritten signature in dark ink, appearing to read "E. Baldrate", is written over the typed name.

Copy: Greg Vogt
Carol Canteen
Chuck Needy

Attachment

No. of Copies rec'd
List A B C D E

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**Southern New England Telephone Co.
DS1 and DS3 Service Overheads
April 8, 1994**

The Southern New England Telephone Co. (SNET) hereby submits the overhead factors and direct cost data for each of its DS1 and DS3 services* as requested by the Commission in its March 11, 1994 letter. SNET's DS1 and DS3 cost information is based on the same costing methodology used to develop SNET's Expanded Interconnection rates. This information conclusively demonstrates that SNET's Expanded Interconnection customers are not bearing a disproportionate portion of overhead expenses. As can be seen by this data, the overhead loading factor of 1.599 which was applied to SNET's currently filed Expanded Interconnection Rates is significantly lower than the average overhead loadings carried by SNET's standard DS1 and DS3 service offerings.

The following assumptions were used in developing these overhead loading factors:

1. Circuit Components - In accordance with the Commission's letter of March 11, 1994, it was assumed each circuit is provided point-to-point and consists of one channel termination component, one channel mileage fixed component and an average channel mileage per mile component. The channel termination component recovers the costs associated with the local channel termination and local facilities between the end user and the serving wire center. In addition, one channel mileage fixed component recovers the costs associated with the interoffice termination at both ends of the interoffice channel while the channel mileage per mile component recovers the costs associated with the transport facility in the interoffice channel.
2. Average Length of the Interoffice Channel - In accordance with the Commission's letter of March 11, 1994, the average number of interoffice channel miles is based on demand data included in the SNET 1993 annual filing. The per mile units were divided by the interoffice fixed units to determine the average length of the respective

* SNET currently offers DS1 services on a monthly rate basis only. SNET offers electrical DS3 service on a monthly, 3 year and 5 year basis. SNET does not offer DS3 optical services.

DS1 and DS3 services. The interoffice fixed units were assumed to be an acceptable surrogate for the number of interoffice circuits because one fixed element is associated with every interoffice channel. When calculating the costs for all three options (monthly, 3 year payment plan and 5 year payment plan), only one seventeen mile average was calculated and used. Because SNET's total DS3 demand is low, the use of individual averages for each service option would be inappropriate.

3. Availability of Expanded Interconnection Service - SNET operates only within the State of Connecticut. The costs and overhead factors were developed using Connecticut data and do not consist of composite rates, costs or overhead factors.

Costing Methodology

The costs associated with the DS1 and DS3 rate elements were developed in March and April of 1994 using direct average unit costs. The rates and charges reflect 1994 levelized costs which were developed using an incremental cost methodology. In addition, the investments reflect forward-looking technology rather than a mix of technology currently in the embedded base. The DS1 and DS3 investment being installed by SNET reflects this new forward looking technology.

Direct unit costs were developed for each DS1 and DS3 rate element. These direct unit costs were used as inputs to SNET's Model for Incremental Costs and Revenue Analysis (MICRA). MICRA is a SNET developed computerized econometric model used to perform incremental cost analysis on new and existing products and service offerings. Based on the inputs, MICRA calculated and summarized investment related capital costs and expenses. The capital related costs include depreciation, maintenance, taxes and the cost of money. The results reflect the levelized unit costs provided in Attachments A & B.

In developing the costs associated with the DS1 and DS3 services, SNET used the same costing methodology as was used for SNET's Expanded Interconnection services. This incremental, forward-looking methodology used the same cost of money, maintenance factors, labor rates, computer model (MICRA), depreciation rates and income tax rates. In addition, in both studies no additional costs or cost factors were included to account for additional land, buildings or administrative costs.

Attachment A

DS1 Services**1. Average Circuit Length**

A.	DS1 Interoffice Mileage Fixed	18,343 Circuits
B.	DS1 Interoffice Mileage	211,940 Miles
C.	DS1 Average Circuit Length (item B/item A)	12 Miles/Interoffice Circuit

2. Circuit Costs, Recurring

A.	Investment	\$5,701
B.	Expenses	
	a. Depreciation	\$439
	b. Maintenance	\$187
	c. Cost of Money	\$588
	d. Tax Requirement	\$474
C.	Total Annual (sum item B)	\$1,688
D.	Total Monthly Cost(item C/12 months)	\$140.67
E.	Circuit Rate, Monthly (current as of March 11, 1994)	\$628.98
F.	Overhead Loading (item E/item D)	4.4713

Attachment B

DS3 Services

1. Average Circuit Length

A. DS3 Interoffice Mileage Fixed		
a.	DS3 Monthly Rate	13 Circuits
b.	DS3 3 Year Payment Plan	36 Circuits
c.	DS3 5 Year Payment Plan	<u>142 Circuits</u>
d.	Total DS3s	191 Circuits
B. DS3 Interoffice Mileage		
a.	DS3 Monthly Rate	52 Miles
b.	DS3 3 Year Payment Plan	438 Miles
c.	DS3 5 Year Payment Plan	<u>2,705 Miles</u>
d.	Total DS3s	3,195 Miles
C. DS3 Average Circuit Length		
(item B (Total)/ item A (Total))		17 miles/Interoffice Circuit

2. Circuit Costs, Recurring

	Monthly Rate	3 Years Term	5 Years Term
A. Investment	\$66,695	\$66,695	\$66,695
B. Expenses:			
a. Depreciation	\$5,898	\$5,898	\$5,898
b. Maintenance	\$1,547	\$1,563	\$1,578
c. Misc.	\$107	\$33	\$18
d. Cost of Money	\$6,888	\$6,211	\$5,613
e. Tax Requirement	\$5,529	\$4867	\$4,335
C. Total Annual (sum item B)	\$19,969	\$18,572	\$17,442
D. Total Monthly Cost(item C/12 months)	\$1,664.08	\$1,547.67	\$1,453.50
E. Circuit Rate, Monthly (current as of March 11, 1994)	\$7,431.74	\$5,987.66	\$4,799.54
F. Overhead Loading (item E/ item D)	4.4660	3.8688	3.3021